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SIPDIS

DEPT FOR INL, NEA/RA, NEA/ARPI, AND DS/IP/NEA
JUSTICE FOR OIA AND AFMLS
TREASURY FOR FINCEN AND OASIA
ISLAMABAD FOR DEA

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TAGS: [KTFN](#) [KCRM](#) [PTER](#) [SNAR](#) [EFIN](#) [MU](#)

SUBJECT: 2004-05 INCSR SUBMISSION FOR OMAN

REF: A. SECSTATE 254401

[B](#). MUSCAT 1196

[C](#). MUSCAT 500

[1](#). Oman is not a regional or offshore financial center and does not have a significant money laundering problem. Its small banking sector is supervised by the Central Bank of Oman (CBO), which has the authority to suspend or reorganize a bank's operations. In 2004, Oman had a total of 17 banks with 353 branches. The banking system consisted of five local commercial banks with 304 Omani and 11 foreign branches, three local specialized banks with 26 local branches, and nine foreign incorporated banks with 23 branches in the country. Smuggling trade goods across Oman's long borders and coastline is becoming an increasing concern. Oman may also be vulnerable to instances of trade-based money laundering and customs fraud as well as unregulated lending schemes that fall outside government purview.

Legislation and Enforcement

[2](#). In March 2002, Royal Decree No. 34/2002 was issued promulgating "The Law of Money Laundering." This new law strengthened the existing money laundering regulations by detailing bank responsibilities, widening the definition of money laundering to include funds obtained through any criminal means, and providing for the seizure of assets and other penalties. The new law applies to other types of non-bank financial institutions as well. In a 2003 report, Omani officials stated that "the legal freezing measures designated by the Money-Laundering Act are applied to both residents and non-residents holding funds, financial assets, or other economic resources in the Sultanate of Oman if they are linked to terrorist-related activities." In addition to an interagency committee for Anti-Money Laundering, the Sultanate has established a senior-level National Committee for Combating Terrorist Finance.

[3](#). Royal Decree 72/2004 of July 7, 2004 promulgated the implementing regulations for the Law of Money Laundering (ref B). These regulations include, inter alia, the following provisions:

- a requirement that financial institutions "take steps to obtain information on customers who open accounts in an indirect way" and "keep electronic data on e-transactions."
- guidelines in the area of profiling, requiring institutions to "check and double-check" certain classes of transactions (e.g., "customers getting loans from foreign institutions" and the "keeping of accounts that do not match the business nature."
- requirements for government authorities to investigate all "suspicious dealings" using internal and external reporting mechanisms.
- authorization for the attorney general to freeze disputed assets upon the request of investigators.
- protection of "secret" information.
- an extensive training program, with introductory courses supplemented by instruction in international best practices and effective investigation techniques.
- definition of the organizational structure of the National Committee for Combating Money Laundering.
- cooperation with international organizations and information exchange with other countries, including collaboration on extradition issues.

[4](#). The Royal Oman Police (ROP), in coordination with the CBO, is responsible for investigating money laundering activities. Banks are required to know their customers and report all suspicious transactions. Compliance personnel are now present in all banks. Oman established a Financial Intelligence Unit (FIU) in 2002 to review suspicious transactions and help coordinate resulting investigations. As of the end of 2004, there had been no arrests under the new law. No formal mechanism exists for information sharing among the GCC Central Banks or FIUs, although a banking supervision committee within the GCC does issue broad guidelines for financial institution oversight.

----- Charitable Organizations -----

15. Oman regulates charitable organizations under the Non-Governmental Organizations Act promulgated pursuant to Royal Decree 14/2000. Under this act, the Minister of Social Development is responsible for approving and monitoring all charitable contributions and fundraising activities. There is a government-registered charity (the Oman Charitable Organization, or OCO), and all citizens and entities are encouraged to use this official channel for donations. The Ministry of Social Development recently registered a charity fund run by a prominent local businessman.

16. At various times, charitable donations have been collected through individual accounts in local banks and sent abroad by individuals to support the Palestinian Intifada and for the building of schools or mosques in Africa and South Asia. The local Shia minority is believed to transfer money to support their religious imams, mainly in Iraq and Iran. Apart from monthly remittances by expatriate laborers, local Indian businessmen have also been reported to channel funds in support of Hindu religious groups. In all of these cases, the CBO possesses the authority and ability to check on these accounts as all banks and moneychangers have the obligation to report on transactions as noted above.

----- Informal Lending Societies -----

17. Informal lending societies reportedly have emerged in recent years as a popular alternative to formal banking in Oman. These societies provide interest free loans as a means for young Omanis to purchase homes and cars or service bank debts. The societies became the target of three separate warnings from the Ministry of Social Development calling on Omanis to avoid these unregulated and unregistered financial entities. Nevertheless, many Omanis flocked to these societies in solidarity with members of their tribes and in protest against double-digit interest rates being charged by commercial banks. Later, as membership numbered in the thousands, serious problems emerged as several founding members absconded with funds from their societies. Suspicious members withdrew from the schemes, causing the collapse of many societies.

18. Reports of excess liquidity in the Omani financial system and the demonstrated popularity of informal societies lend credence to the view that hundreds of thousands if not millions of dollars are circulating outside the formal financial system and its strict regulations, auditing requirements, and accountability to the CBO. In addition, some informal societies reportedly are run by Islamic groups, ostensibly with ties to the Ministry of Awqaf and Religious Affairs, who make trips to various destinations abroad. Transactions in these societies are made in cash, and the societies are not registered with any government agency or institution. While such practices constitute only a fraction of overall financial transactions in Oman, they merit greater scrutiny on the part of ROP and CBO authorities.

----- International Accords -----

19. Oman is a party to the 1988 UN Drug Convention, and is a member of the Gulf Cooperation Council (GCC), which itself is a member of the Financial Action Task Force (FATF). Oman supported the creation of a regional FATF-style body in Bahrain, and sent top government officials to the MENA FATF inauguration in November 2004. Although not yet a party to the 1999 International Convention for the Suppression of the Financing of Terrorism, Omani officials insist that Oman will soon accede (ref C).

110. Oman has responded to terrorist asset freeze lists from the UN 1267 Committee by distributing the lists to all banks and other financial institutions in the country for checking against their accounts. Thus far, the Government has reported negative results.

----- Comment -----

111. Overall, Oman maintains a strong and effective regulatory regime with respect to its formal financial institutions. Oman should continue to implement its anti-money laundering program, specifically dedicating adequate resources to its FIU and training criminal investigators to initiate money laundering investigations from the field. Oman also should become more aware of the dangers of alternative remittance

systems and unregulated lending societies to launder money and sidestep formal government oversight of financial transactions. Applying the careful lessons learned in its tight regulation of the formal sector, Oman must now recognize that informal money transfer and cash-based lending societies represent vulnerabilities that must be addressed.

BALTIMORE